

Message Text

LIMITED OFFICIAL USE

PAGE 01 BOGOTA 00631 01 OF 03 212129Z

72

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-02 LAB-04

NSAE-00 NSC-05 PA-01 RSC-01 AID-05 CIEP-01 SS-15

STR-01 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

OPIC-03 XMB-02 /092 W

----- 114571

R 211810Z JAN 75

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 6658

INFO AMCONSUL MEDELLIN

AMCONSUL CALI

LIMITED OFFICIAL USE SECTION 1 OF 3 BOGOTA 631

EO 11652: NA

TAGS: EGEN CO

SUBJ: COLOMBIAN ECONOMIC PERFORMANCE AND PROSPECTS FOR RELATIONS
WITH THE US

1. SUMMARY: COLOMBIAN ECONOMIC PERFORMANCE IN 1974 WAS NEITHER EXCEPTIONALLY GOOD NOR PARTICULARLY BAD. GNP INCREASED BY 6 PC IN REAL TERMS. INFLATION REACHED ANOTHER ALL-TIME HIGH OF 26 PC ACCORDING TO THE GOVT'S CONSUMER PRICE INDEX. DESPITE RECORD FOREIGN EXCHANGE RECEIPTS FOR COLOMBIAN EXPORTS, RESERVES DROPPED BY US 120 MILLION. MAJOR ECONOMIC REFORM MEASURES DESIGNED TO FIGHT INFLATION AND PROMOTE MORE EQUITABLE INCOME DISTRIBUTION WERE TAKEN BY THE NEW LOPEZ GOVT IN SEPT AND OCT. THE INITIAL REACTION TO THE REFORM MEASURES WAS APPREHENSION AND CONCERN AS MORE AND MORE INTEREST GROUPS WERE AFFECTED AND AS SOME OF THE MEASURES THEMSELVES ACTUALLY ADDED TO INFLATION PRESSURE AT YEAR'S END.

2. FOR 1975, WE ARE PREDICTING (1) MODERATE REDUCTION IN THE REAL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BOGOTA 00631 01 OF 03 212129Z

GROWTH RATE, (2) CONTINUED BUDGET AUSTERITY, (3) REDUCTION IN

INFLATION AND (4) AN INCREASE IN UNEMPLOYMENT. ADDED INFLATIONARY PRESSURE CAN BE EXPECTED TO COME FROM THE COST SIDE AS WORKERS TRY TO REGAIN SOME OF THE PURCHASING POWER LOST OVER THE LAST COUPLE OF YEARS. IT IS ANTICIPATED THAT THE GOC WILL CONTINUE TO PROVIDE SUPPORT TO THE EXPORT SECTOR THROUGH SPECIAL LINES OF CREDIT TO OFFSET THE REDUCED BENEFIT DERIVED FROM CAT TAX REBATES AND THE ANTICIPATED SOFTENING IN WORLD DEMAND FOR COLOMBIAN EXPORTS. A KEY QUESTION IS WHETHER IN 1975 THE GOC WILL COME TO GRIPS WITH ITS GROWING ENERGY PROBLEM AND IMPLEMENT A COMPREHENSIVE PLAN TO ENCOURAGE FURTHER OIL AND GAS EXPLORATION AND DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

3. THE NATURE OF OUR ECONOMIC RELATIONS WITH COLOMBIA IS CHANGING. COLOMBIA IS NOW MORE CONCERNED ABOUT ACCESS TO OUR MARKET AND ACCOMPANYING FOREIGN EXCHANGE EARNINGS THAN THE LEVEL OF OUR BILATERAL ASSISTANCE PROGRAM. THIS MAY MARK A TURNING POINT IN OUR RELATIONS. UPCOMING BILATERAL TEXTILE NEGOTIATIONS, THE GOC'S DESIRE TO SEE A NEW INTERNATIONAL COFFEE AGREEMENT, AND THE PROSPECTS OF BENEFITTING FROM OUR GSP ALL SUGGEST THAT TRADE QUESTIONS WILL BE THE MOST IMPORTANT BILATERAL ECONOMIC ISSUES OVER THE NEXT 12 TO 18 MONTHS. END SUMMARY.

4. ECONOMIC PERFORMANCE 1974. (A) YEAR END OVERVIEW: PRELIMINARY FIGURES FOR 1974 RELEASED BY THE FIN MIN SHOW A GNP INCREASE OF 6 PC IN REAL TERMS. THIS IS ABOUT ONE PC LOWER THAN 1973 BUT EQUAL TO THE AVERAGE FOR THE PREVIOUS 5 YEARS. INDUSTRIAL PRODUCTION AND CONSTRUCTION WERE REPORTED TO HAVE GROWN LESS RAPIDLY THAN IN 1973 WHILE AGRICULTURAL GROWTH INCREASED. LED BY FOOD, CONSUMER PRICES INCREASED BY 26 PC, SURPASSING SLIGHTLY LAST YEAR'S RECORD HIGH. TAX COLLECTIONS INCREASED BY 30 PC. MONEY SUPPLY GREW BY 20 PC, A SUBSTANTIAL IMPROVEMENT WHEN COMPARED TO 1973. INTERNATIONAL RESERVES DROPPED BY US 120 MILLION AS A RESULT OF RESTRICTIVE CAPITAL INFLOW POLICIES AND A DECISION TO EXPAND IMPORTS TO DAMPEN INFLATIONARY PRESSURE. PAYMENTS FOR GOODS IMPORTS INCREASED BY 40 PC. COFFEE RECEIPTS GREW ONLY 10 PC BUT REACHED AN ALL TIME HIGH. NON-COFFEE EXPORTS GREW BY 41 PC. THE EXCHANGE RATE DEPRECIATED BY 14 PC COMPARED TO 9 PC IN 1973. WE THINK THE CASH FLOW BUDGET DEFICIT WAS SMALLER THAN IN 1973 AND MIGHT BE CLOSE TO 2.2 BILLION PESOS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BOGOTA 00631 01 OF 03 212129Z

5. (B) THE PASTRANA MONTHS. FROM JAN THROUGH JULY 1974, THE ECONOMIC DECISIONS WERE MADE BY THE OUTGOING PASTRANA ADMINISTRATION. VERY LITTLE IF ANY NEW ECONOMIC DIRECTION COULD BE OBSERVED AND IT CAN BE DESCRIBED AS A PERIOD OF BUSINESS AS USUAL. DURING THE PASTRANA MONTHS, THE ECONOMY CONTINUED TO EXPERIENCE RAPID ECONOMIC GROWTH LED BY CONTINUED EXPORT EXPANSION, A CONSTRUCTION SECTOR BOOM AND GOOD AGRICULTURAL PERFORMANCE. RAPID INFLATION ALSO CONTINUED DESPITE GOVT ATTEMPTS TO CONTROL

PRICES THROUGH ELABORATE SUBSIDY SCHEMES. THE BUDGET DEFICIT AND MONEY SUPPLY EXPANSION WERE KEPT DOWN BY HOLDING BACK ON INVESTMENT EXPENDITURES AND SUBSTANTIALLY REDUCING FOREIGN CAPITAL INFLOWS. IMPORTS GREW AT AN UNPRECEDENTED RATE DURING THIS PERIOD.

6. (C) STRATEGY OF THE LOPEZ ADMINISTRATION. LOPEZ AND HIS TEAM OF ECONOMIC TECHNOCRATS TOOK CONTROL IN AUG AND WERE FACED WITH SOME VERY REAL AND DIFFICULT PROBLEMS REQUIRING IMMEDIATE ATTENTION, INCLUDING A SUBSTANTIAL BUDGET DEFICIT AND A NEED TO INCREASE REVENUES, A SUBSIDY SYSTEM WHICH WAS NOT SUSTAINABLE, A NEED FOR A UNISKED ENERGY POLICY, A LOSS OF REAL INCOME FOR THE LOWER AND MIDDLE INCOME GROUPS, AND THE POTENTIAL SOFTENING OF WORLD DEMAND FOR COLOMBIAN EXPORTS. IT TOOK LOPEZ NEARLY TWO MONTHS TO SORT OUT THE MAGNITUDE OF THE PROBLEMS HE INHERITED AND TO DRAW UP A COMPREHENSIVE ECONOMIC REFORM PACKAGE. LOPEZ, USING CONSTITUTIONAL POWERS NEVER BEFORE EXERCISED, DECLARED A STATE OF ECONOMIC EMERGENCY IN MID-SEPT. THE DECLARATION WAS A WAY OF (A) GENERATING A PUBLIC SENSE OF URGENCY FOR THE LOPEZ ECONOMIC REFORM PROGRAM AND (B) IMMEDIATELY INSTITUTING KEY ELEMENTS OF THE REFORM PACKAGE WITHOUT THE INCONVENIENCE OF CONGRESSIONAL DEBATE OR REVISION.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BOGOTA 00631 02 OF 03 212140Z

72

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-02 LAB-04

NSAE-00 NSC-05 PA-01 RSC-01 AID-05 CIEP-01 SS-15

STR-01 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

OPIC-03 XMB-02 /092 W

----- 114694

R 211810Z JAN 75

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 6659

INFO AMCONSUL MEDELLIN

AMCONSUL CALI

LIMITED OFFICIAL USE SECTION 2 OF 3 BOGOTA 631

7. (D) THE REFORM MEASURES. THE MANY REFORM MEASURES WHEN TAKEN TOGETHER, WERE DESIGNED TO MAKE FUNDAMENTAL CHANGES IN INCOME DISTRIBUTION AND ALLOCATION OF FINANCIAL RESOURCES. IN ADDITION, THE MEASURES WERE SUPPOSED TO FIGHT INFLATION BY REDUCING GOVT BUDGET DEFICITS AND LOWING THE GROWTH OF THE MONEY SUPPLY. SALES AND INCOME TAX MEASURES ARE THE MOST COMPREHENSIVE AND IMPORTANT OF ALL THE MEASURES TAKEN SO FAR. THE PURPOSE HERE WAS TO (A) MAKE THE TAX SYSTEM MORE PROGRESSIVE, (B) INCREASE TAX REVENUES AND (C) REDUCE TAX EVASION AND AVOIDANCE. THROUGH A SERIES OF MONETARY JUNTA TECHNICAL REGULATIONS AND PRESIDENTIAL DECREES, AN ATTEMPT WAS MADE TO ALLOCATE FINANCIAL RESOURCES MORE IN LINE WITH THE PROFITABILITY OF AN INVESTMENT. THIS INCLUDED, BUT WAS NOT LIMITED TO , (A) ELIMINATION OF SOME FORCED INVESTMENTS BY BANKS AND INSURANCE COMPANIES, (B) REDUCTION AND SIMPLIFICATION OF COMMERCIAL BANK RESERVE REQUIREMENTS, AND (C) RESTRUCTURING INTEREST RATES TO INCREASE SAVINGS AND REDUCE THE PRIVILEGED POSITION ENJOYED BY THE CONSTANT VALUE SAVINGS AND LOAN SYSTEM (UPAC) UNDER THE PASTRANA ADMINISTRATION. BESIDES ADMINISTRATIVE DIRECTIVES TO REDUCE BUDGETARY OUTLAYS,

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BOGOTA 00631 02 OF 03 212140Z

THE GOC MOVED TO A) SUBSTANTIALLY REDUCE CAT TAX REBATE PAYMENTS TO EXPORTERS, WHICH HAD SERIOUSLY REDUCED NET REVENUES, AND (B) ELIMINATE THE WHEAT SUBSIDY WHICH KEPT DOMESTIC PRICES CONSIDERABLY BELOW WORLD MARKET PRICES WHICH TENDED TO INCREASE DEMAND FOR WHEAT IMPORTS, ALMOST ALL FROM THE US. ALTHOUGH THE GOVT INCREASED THE MINIMUM WAGE SOMEWHAT, IT BACKED OFF ITS CAMPAIGN ORATORY ABOUT IMPLEMENTING AN OVERALL INCOME AND PRICE POLICY.

8. (E) IMPACT OF THE REFORM PACKAGE. AS THE EMERGENCY MEASURES BEGAN TO UNFOLD, A GOOD DEAL OF PESSIMISM, UNCERTAINTY AND CRITICISM BEGAN TO DEVELOP AS (A) MORE AND MORE SPECIAL INTEREST GROUPS WERE AFFECTED AND (B) THE IMMEDIATE IMPACT OF THE REFORM PACKAGE CAUSED FURTHER LARGE INCREASES IN THE CONSUMER PRICE INDEX IN SEPT AND OCT.. THIS WAS PARTICULARLY SIGNIFICANT SINCE THE LOPEZ ECONOMIC PROGRAM WAS DESIGNED TO REDUCE INFLATION. LOPEZ INITIATED POLICIES TO REDUCE VERY SUBSTANTIALLY MONEY SUPPLY EXPANSION WHICH LED TO A CORRESPONDING REDUCTION IN CREDIT AND FURTHER CRITICISM ESPECIALLY AMONG EXPORTERS WHO WERE ALREADY ANTICIPATING LOSS OF THE CAT AND A SOFTENING OF DEMAND FOR EXPORTS. HE SUBSEQUENTLY MODIFIED SOME OF THE REFORM MEASURES WHICH, ALONG WITH RELATIVELY SMALL PRICE INCREASES IN NOVEMBER PLUS A CAMPAIGN TO PROVIDE ADDED CREDIT INCENTIVES TO THE EXPORT SECTOR, DAMPENED CRITICISM AS THE CHRISTMAS HOLIDAY SEASON APPROACHED. THE ANTI-INFLATIONARY PROVISIONS OF THE REFORM PACKAGE SHOULD BEGIN TO TAKE HOLD IN 1975. HOWEVER, LABOR DEMANDS COULD

ADD SIGNIFICANTLY TO INFLATIONARY PRESSURE FROM THE COST SIDE. THE AMOUNT OF INCOME REDISTRIBUTION THAT TAKES PLACE TO A LARGE EXTENT WILL BE A FUNCTION OF HOW THE GOC CHOOSES TO ALLOCATE RESOURCES THROUGH THE INVESTMENT BUDGDS. AN IMPORTANT CRITICISM OF THE REFORM MEASURES TAKEN TO DATE IS THEIR FAILURE TO DEAL WITH COLOMBIA'S IMMINENT ENERGY PROBLEMS. SOME HAVE SPECULATED THAT REFORM IN THIS AREA MUST WAIT UNTIL CRITICISM OF OTHER MEASURES HAS DROPPED OFF.

9. II. ECONOMIC PROSPECTS FOR 1975 AND BEYOND. A. GROWTH AND INFLATION: WHILE IT IS TOO EARLY TO PREDICT ACCURATELY THE COMBINED EFFECT ON THE COLOMBIAN ECONOMY OF A WORLD RECESSION AND LOPEZ' ECONOMIC REFORM PACKAGE, WE EXPECT ECONOMIC GROWTH TO CONTINUE AT A RESPECTABLE RATE OF FROM 4 TO 5 PC FOR 1975. INFLATION SHOULD BE IN THE 15 TO 20 PC RANGE. UNDEREMPLOYMENT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BOGOTA 00631 02 OF 03 212140Z

AND UNEMPLOYMENT ARE ALREADY HIGH AND ARE LIKELY TO INCREASE AS THE RATE OF INFLATION AND ECONOMIC ACTIVITY CONTINUE TO SLOW DOWN. HOWEVER, WE ANTICIPATE INCREASED PRESSURE FOR SUBSTANTIAL WAGE INCREASES TO OFFSET THE EFFECTS OF CONTINUED HIGH LEVELS OF INFLATION. INFLATIONARY PRESSURE IN 1975 IS LIKELY TO BE MORE OF THE COST PUSH VARIETY THAN THE DEMAND-PULL THAT COLOMBIA EXPERIENCED IN 1973 AND 1974. SOME OF THE LARGER MULTINATIONAL COMPANIES SIGNED CONTRACTS LAST YEAR PROVIDING FOR 30 TO 50 PC INCREASES IN WAGES AND BENEFITS OVER THE NEXT TWO TO THREE YEARS.

10. B. BUDGET AND MONETARY POLICIES. IT IS EXPECTED THAT THE GOC WILL CONTINUE ITS EFFORTS TO REDUCE THE BUDGET DEFICIT AND KEEP THE RATE OF MONETARY EXPANSION DOWN. THE TAX-REFORM MEASURES OF 1974 ARE LIKELY TO GENERATE AN ADDITIONAL 2 BILLION PESOS IN 1975 AND THE REDUCTION IN CAT BENEFITS IS LIKELY TO SAVE ANOTHER BILLION PESOS IN EXPENDITURES. THE ELIMINATION OF THE WHEAT SUBSIDY WILL REDUCE IDEMA BORROWING BY NEARLY 1.2 BILLION PESOS WHICH SHOULD REDUCE PUBLIC SECTOR BUDGET DEFICITS SIGNIFICANTLY AS WELL AS REDUCE SOMEWHAT COLOMBIA'S DEPENDENCE ON WHEAT IMPORTS.

11. C. ECONOMIC DEVELOPMENT. THE GOC HAS EXPRESSED ITS INTENTION TO SUPPORT PROGRAMS TO HELP THE POORER 50 PC OF THE POPULATION. IT IS HOPED THAT THE GOC WILL PLACE MORE EMPHASIS ON IMPLEMENTING ITS DEVELOPMENT PROGRAM TO CONTINUE THE MOMENTUM WHICH WAS STALLED BY INACTION OF THE LOPEZ GOVT IN 1974. DURING 1974, ALL MAJOR AID DONORS EXPERIENCED VARYING DEGREES OF DIFFICULTY IN DISBURSING LOANS BECAUSE OF LACK OF COUNTERPART CONTRIBUTIONS BY THE GOC. LOPEZ WAS THEN SLOW IN APPOINTING PEOPLE TO SOME OF THE MORE IMPORTANT POSITIONS. THERE IS REASON TO BELIEVE THAT THE GOVT INVESTMENT BUDGET MAY INCREASE ONLY SLIGHTLY IN REAL

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BOGOTA 00631 03 OF 03 212158Z

72

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-02 LAB-04

NSAE-00 NSC-05 PA-01 RSC-01 AID-05 CIEP-01 SS-15

STR-01 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

OPIC-03 XMB-02 /092 W

----- 114916

R 211810Z JAN 75

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 6660

INFO AMCONSUL MEDELLIN

AMCONSUL CALI

LIMITED OFFICIAL USE SECTION 3 OF 3 BOGOTA 631

TERMS IN 1975 AS PART OF THE CONTINUED AUSTERITY PROGRAM. THE GOC MAY INITIATE SOME NEW PROGRAMS LATER IN THE YEAR IF THE REVENUE PROSPECTS IMPROVE. THE INTERNATIONAL LENDING AGENCIES HAVE PLANS TO CONTINUE SUBSTANTIAL LENDING PROGRAMS TO COLOMBIA. AGRICULTURAL OUTPUT REMAINS A KEY, BUT UNPREDICTABLE, FACTOR IN OVERALL PERFORMANCE PROSPECTS.

12. D. EXPORT PROMOTION. WE EXPECT THE GOVT ACTIVELY TO SUPPORT THE EXPORT SECTOR THROUGH FASTER PESO DEVALUATION AND GRANTING LOW INTEREST WORKING CAPITAL LOANS FINANCED FROM FOREIGN BORROWING AND CENTRAL BANK DISCOUNTING. THIS ADDED SUPPORT IS SUPPOSED TO OFFSET THE SUBSTANTIAL LOSS IN CAT BENEFITS PLUS THE ANTICIPATED SOFTENING OF EXPORT PRICES. THE REVISED 1975 EXPORT PROMOTION STRATEGY, IF ALL CREDIT LINES ARE FULLY UTILIZED, COULD EXPAND MONEY SUPPLY BY AN ADDITIONAL 4 BILLION PESOS. THE GOC ALSO HOPES TO INCREASE DIVERSIFICATION OF ITS EXPORT MARKETS IN ORDER PARTIALLY TO PROTECT EXPORTS FROM THE FALL IN INDUSTRIAL COUNTRY DEMAND ANTICIPATED FOR 1975. THERE ARE ALSO STRONG INDICATIONS OF RENEWED TRADE TIES WITH CUBA.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BOGOTA 00631 03 OF 03 212158Z

13. E. BALANCE OF PAYMENTS. WHILE WE ANTICIPATE SOME SOFTENING IN DEMAND FOR COLOMBIAN EXPORTS AND A WORSENING IN THE TERMS OF TRADE, WE ARE NOT PREDICTING A BALANCE OF PAYMENTS CRISIS IN 1975 WHICH WOULD REQUIRE MAJOR ADDITIONAL INFLOWS OF FOREIGN FINANCING. THIS SITUATION MIGHT CHANGE IN 1976 IF COLOMBIAN EXPORT EARNINGS ARE REDUCED. THE GOC HAS BEGUN TO REDUCE ADMINISTRATIVELY IMPORT LICENSES WHICH IS LIKELY TO BRING IMPORT PAYMENTS MORE IN LINE WITH FOREIGN EXCHANGE AVAILABILITIES. THE GOC INTENDS TO AUTHORIZE US \$ 250 MILLION IN NEW FOREIGN BORROWINGS FOR EACH OF THE NEXT FOUR YEARS. THIS LEVEL IS SMALL WHEN COMPARED TO THE HISTORICAL TREND AND PROBABLY UNDERSTATES THE REQUIREMENTS. THE GOC WILL REMAIN RECEPTIVE TO FOREIGN INVESTMENT ALTHOUGH FOREIGN FIRMS WILL INCREASINGLY BE REQUIRED TO PARTICIPATE IN JOINT VENTURES.

14. F. ENERGY POLICY. SO FAR THE GOC HAS FAILED TO ADMIT PUBLICLY THAT COLOMBIA HAS AN ENERGY PROBLEM. ALTHOUGH EARNINGS FROM FUEL OIL EXPORTS ARE EXPECTED TO EXCEED PAYMENTS FOR GASOLINE AND CRUDE IMPORTS, GASOLINE CONSUMPTION IS GROWING AND CRUDE PRODUCTION IS DECLINING. THE GOC SEEMS RELUCTANT TO ALLOW AN INCREASE IN GASOLINE PRICES SINCE SUCH A MOVE WOULD HAVE WIDESPREAD POLITICAL CONSEQUENCES. THIS YEAR, THE GOC WILL ANNOUNCE A PRICE INCREASE ON NEW FINDS WHICH HOPEFULLY WILL PROVIDE SUFFICIENT FINANCIAL INCENTIVES TO STIMULATE SERIOUS EXPLORATION. THE GOC MUST COME TO GRIPS WITH THE DOMESTIC PRICE PROBLEM OR FIND ITSELF IN THE UNFORTUNATE POSITION OF IMPORTING LARGE AMOUNTS OF GASOLINE WITH THE ACCOMPANYING ADVERSE EFFECTS ON THE BALANCE OF PAYMENTS AND GROWTH PROSPECTS. THE PETROLEUM PROBLEM COULD BECOME THE MOST SERIOUS FACTOR AFFECTING THE COLOMBIAN ECONOMY OVER THE NEXT FOUR OR FIVE YEARS.

15. III. IMPLICATIONS FOR THE U.S. A. GENERAL. OUR ECONOMIC RELATIONS WITH COLOMBIA ARE CHANGING. THE SUCCESS OF OPEC, RECESSION IN THE U.S. AND OTHER INDUSTRIAL COUNTRIES, THE RISE OF VENEZUELA AS AN ECONOMIC POWER, AND THE REDUCTION OF BILATERAL ASSISTANCE, SUGGEST TO COLOMBIA AND OTHER LDC'S THAT A RELATIONSHIP MORE APPROACHING THAT BETWEEN EQUALS MAY NOW BE POSSIBLE WITH THE U.S. THE GOC SEEMS MORE CONCERNED NOW ABOUT

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BOGOTA 00631 03 OF 03 212158Z

ACCESS TO U.S. MARKETS AND ACCOMPANYING EXCHANGE EARNINGS THAT THE LEVEL OF OUR BILATERAL ASSISTANCE PROGRAMS. TRADE QUESTIONS ARE LIKELY TO BE THE MOST

IMPORTANT BILATERAL ECONOMIC ISSUES OVER THE NEXT 12 TO 18 MONTHS.

16. B. BILATERAL TRADE RELATIONS. COLOMBIA CONTINUES TO SUCCEED IN ITS POLICY OF DIVERSIFYING EXPORTS AWAY FROM THE UNITED STATES. WHILE WE ARE BY FAR COLOMBIA'S LARGEST MARKET, OUR SHARE HAS BEEN REDUCED TO ABOUT ONE-THIRD OF TOTAL EXPORT REGISTRATIONS IN 1974 AS COMPARED TO ABOUT HALF IN 1964. THE ANDEAN COUNTRIES, OTHER LATIN STATES, THE EC AND THE SOCIALIST COUNTRIES ALL REGISTERED GAINS IN 1974. LESS DEPENDENCE ON THE U.S. MARKET CUTS BOTH WAYS. ON THE ONE HAND, IT TENDS TO DEFUSE THE SIGNIFICANCE OF A PARTICULAR BILATERAL TRADE DISPUTE SINCE THE ECONOMIC CONSEQUENCES OF THE DECISION ARE LESS CRITICAL. AS WE BECOME LESS IMPORTANT AS A MARKET, WE INDIRECTLY LOSE LEVERAGE ON COLOMBIA WHICH OTHERWISE

MIGHT BE WILLING TO SUPPORT US INITIATIVES IN ORDER TO MAINTAIN GOOD TRADE RELATIONS WITH US. WHILE COLOMBIA CONTINUES TO DIVERSIFY EXPORTS AWAY FROM US, IT HAS FOR THE SECOND STRAIGHT YEAR INCREASED MORE THAN PROPORTIONATELY ITS IMPORTS FROM THE US (BASED ON REGISTRATIONS). THE US CAPTURED ROUGHLY 43 PC OF THE COLOMBIAN MARKET IN 1974. THIS MEANS THAT US EXPORTS ARE BECOMING MORE PRICE COMPETITIVE. AGAIN ON THE BASIS OF REGISTRATIONS, COLOMBIA'S BILATERAL TRADE DEFICIT HAS MORE THAN DOUBLED IN 1974 AND IS LIKELY TO EXCEED US 250 MILLION. THE COLOMBIANS MAY WELL USE THIS ARGUMENT AGAINST US IN THE UPCOMING TEXTILE NEGOTIATIONS TO GAIN GREATER ACCESS TO OUR MARKET. ON COFFEE, THE COLOMBIANS REMAIN ANXIOUS TO NEGOTIATE AN AGREEMENT WITH THE CONSUMING NATIONS. THE COLOMBIANS HAVE BEEN LED TO BELIEVE THAT THEY WOULD BENEFIT FROM OUR GENERALIZED SYSTEM OF PREFERENCES. IT REMAINS TO BE SEEN THE EXTENT TO WHICH THIS WILL BE THE CASE. THUS FAR, THE GOC HAS BEEN RESTRAINED IN CRITICIZING THE RESTRICTIVE PROVISIONS OF THE TRADE ACT, ALTHOUGH SOME SOLIDARITY WITH ECUADOR AND VENEZUELA HAS BEEN FELT NECESSARY.

17. C. ASSISTANCE PROGRAMS. THE NATURE AND STYLE OF OUR ASSISTANCE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BOGOTA 00631 03 OF 03 212158Z

TANCE TO COLOMBIA HAS NEARLY COMPLETED THE TRANSITION PERIOD AWAY FROM LARGE SCALE RESOURCE TRANSFERS THROUGH SECTOR LOANS TOWARD A MORE MODEST PROGRAM OF SELECTIVE ASSISTANCE TO BENEFIT THE POORER SOCIO-ECONOMIC GROUPS. THE VERY LARGE UNDISBURSED AID PIPELINE WAS REDUCED SUBSTANTIALLY DURING 1974. THE US NOW PROVIDES MORE FINANCIAL SUPPORT THROUGH ITS CONTRIBUTION TO THE DEVELOPMENT BANKS THAN IT DOES THROUGH BILATERAL ASSISTANCE. UNDER THESE CHANGING CIRCUMSTANCES, OUR ABILITY TO INFLUENCE GOC THINKING ON BROAD ECONOMIC POLICY ISSUES HAS LESSENED. THUS FAR, THE GOC HAS NOT DEVOTED SUFFICIENT HIGH LEVEL ATTENTION

TO SPECIFIC DEVELOPMENT PROGRAMS ALTHOUGH IT HAS OUTLINED A
GENERAL STRATEGY. NEVERTHELESS, WE WILL CONTINUE TO DISCUSS
PROJECT POSSIBILITIES WITH THE GOC IN ANTICIPATION OF THEIR
INTEREST AND CONTINUATION OF OUR ASSISTANCE EFFORTS. WE ANTICI-
PATE THAT THE GOC WOULD BE MORE INTERESTED IN FAST DISBURSING
FOREIGN ASSISTANCE IF (A) BALANCE OF PAYMENTS PROBLEMS DEVELOP
OR (B) THE FISCAL SITUATION REMAINS TIGHT. WE CONTINUE TO BELIEVE
THAT BALANCE OF PAYMENTS OR BUDGET SUPPORT WOULD NOT BE AN
APPROPRIATE ROLE FOR OUR BILATERAL ASSISTANCE. HOWEVER, WE WOULD
HAVE TO CONSIDER A REQUEST FOR SUCH ASSISTANCE AND EVALUATE
IT IN TERMS OF OUR PERCEPTION OF THE PREVAILING ECONOMIC SITUAT-
ION AND PROSPECTS.
VAKY

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN RELATIONS, INFLATION, ECONOMIC CONDITIONS, ECONOMIC REPORTS, ECONOMIC CONTROLS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BOGOTA00631
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750023-0362
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750135/aaaabeno.tel
Line Count: 452
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 05 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 SEP 2003 by ShawDG>; APPROVED <19 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COLOMBIAN ECONOMIC PERFORMANCE AND PROSPECTS FOR RELATIONS WITH THE US
TAGS: EGEN, CO, US, (PASTRANA), (LOPEZ)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006